

# Economic Outlook for the US and Indiana

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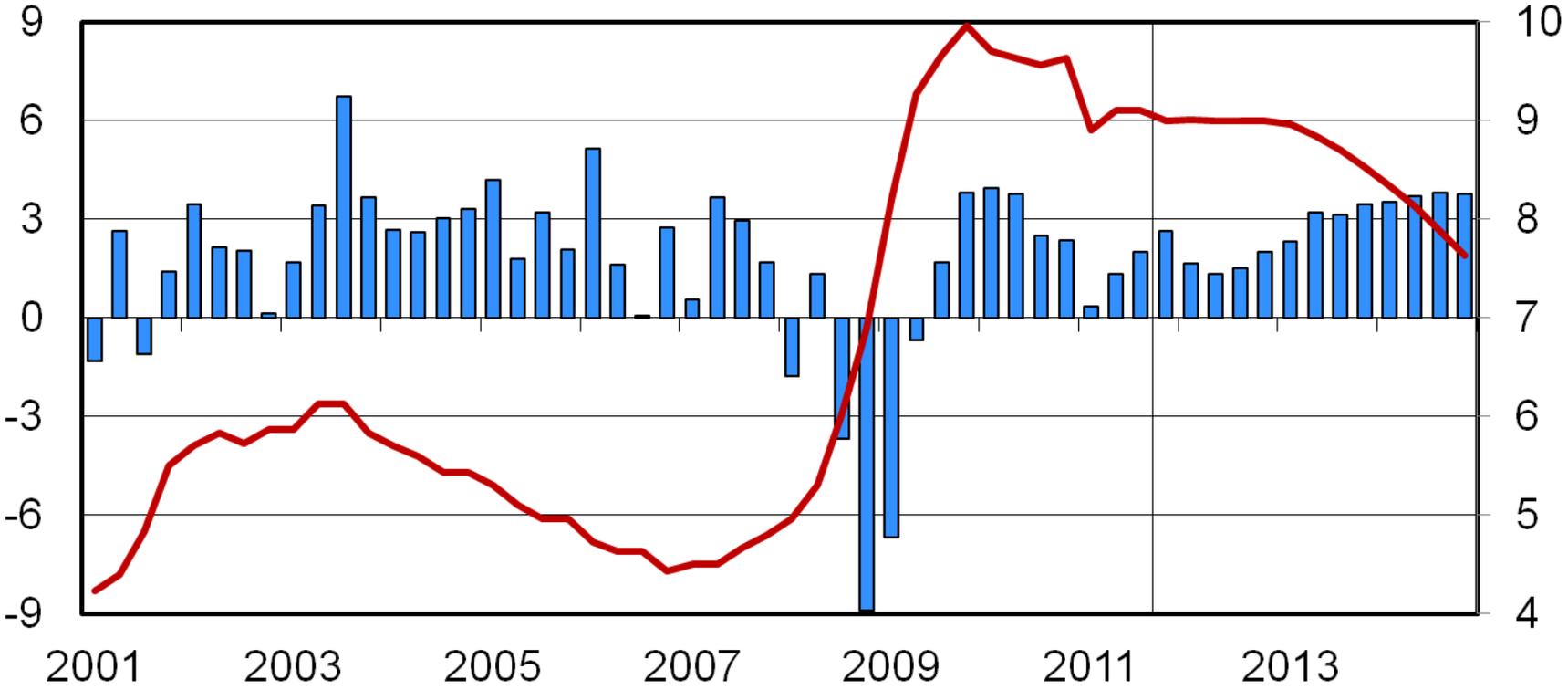


**GLOBAL**  
INSIGHT

# The US Economy Keeps Growing

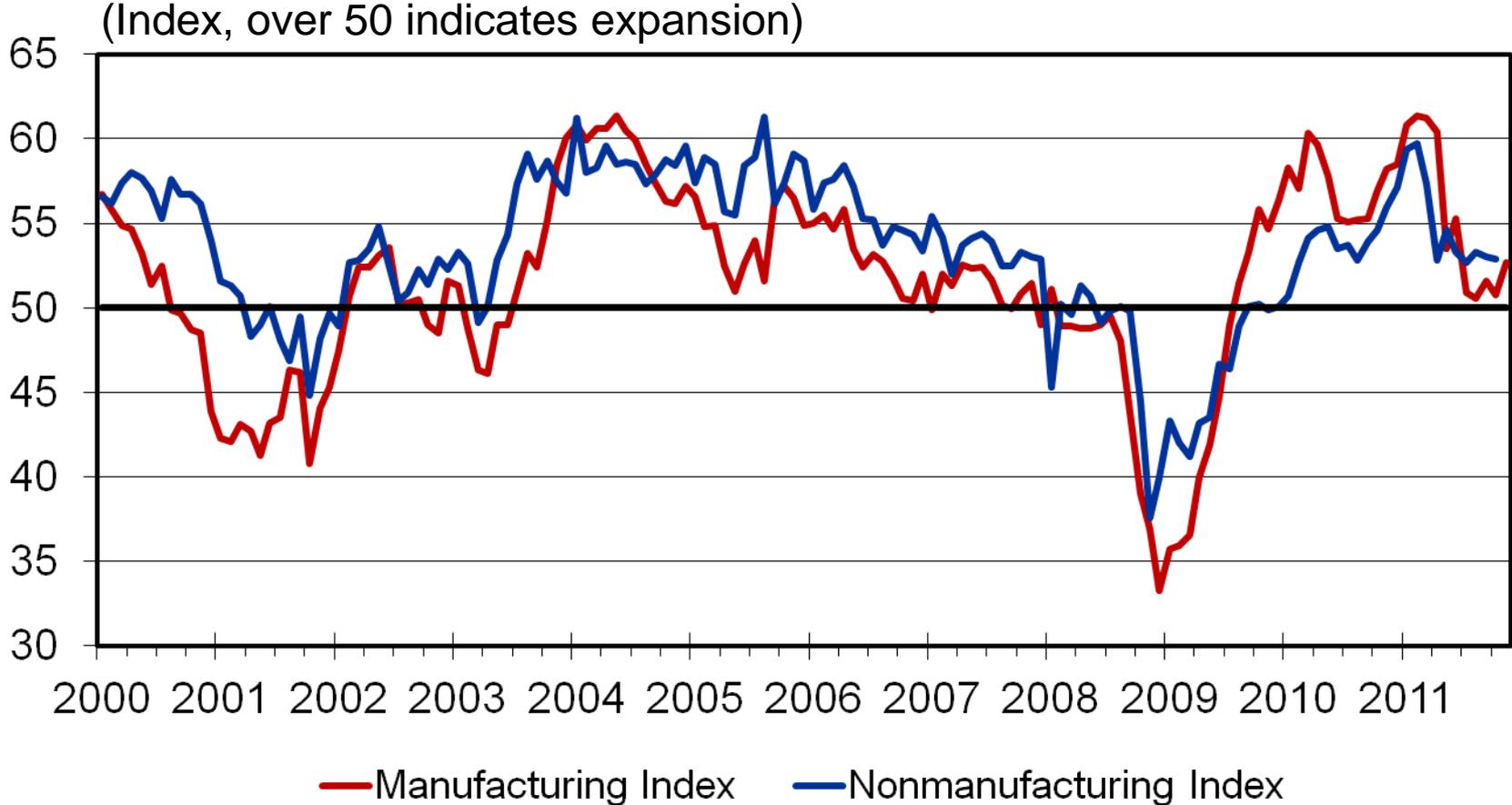
- In the midst of global storm clouds, the US economy will continue to grow at a moderate pace.
- Yet, unemployment is expected to remain high for several years.
- Business equipment investment and consumer durables, supported by replacement demand, will drive near-term growth.
- Fiscal policies will tighten, although the timing and scope is unsettled.
- The Federal Reserve's further attempts at stimulus will have little impact.
- A recovery in housing markets brings more robust economic growth in 2013-15.
- Domestic risks have eased a little, but the threat from the Eurozone persists.

# Modest Economic Growth and High Unemployment



■ Real GDP Growth (Left scale, annual percent change)  
— Unemployment Rate (Right scale, percent)

# Supply Managers' Indexes Signal Slow Growth



Source: Institute for Supply Management (ISM)

# US Economic Growth by Sector

(Percent change)

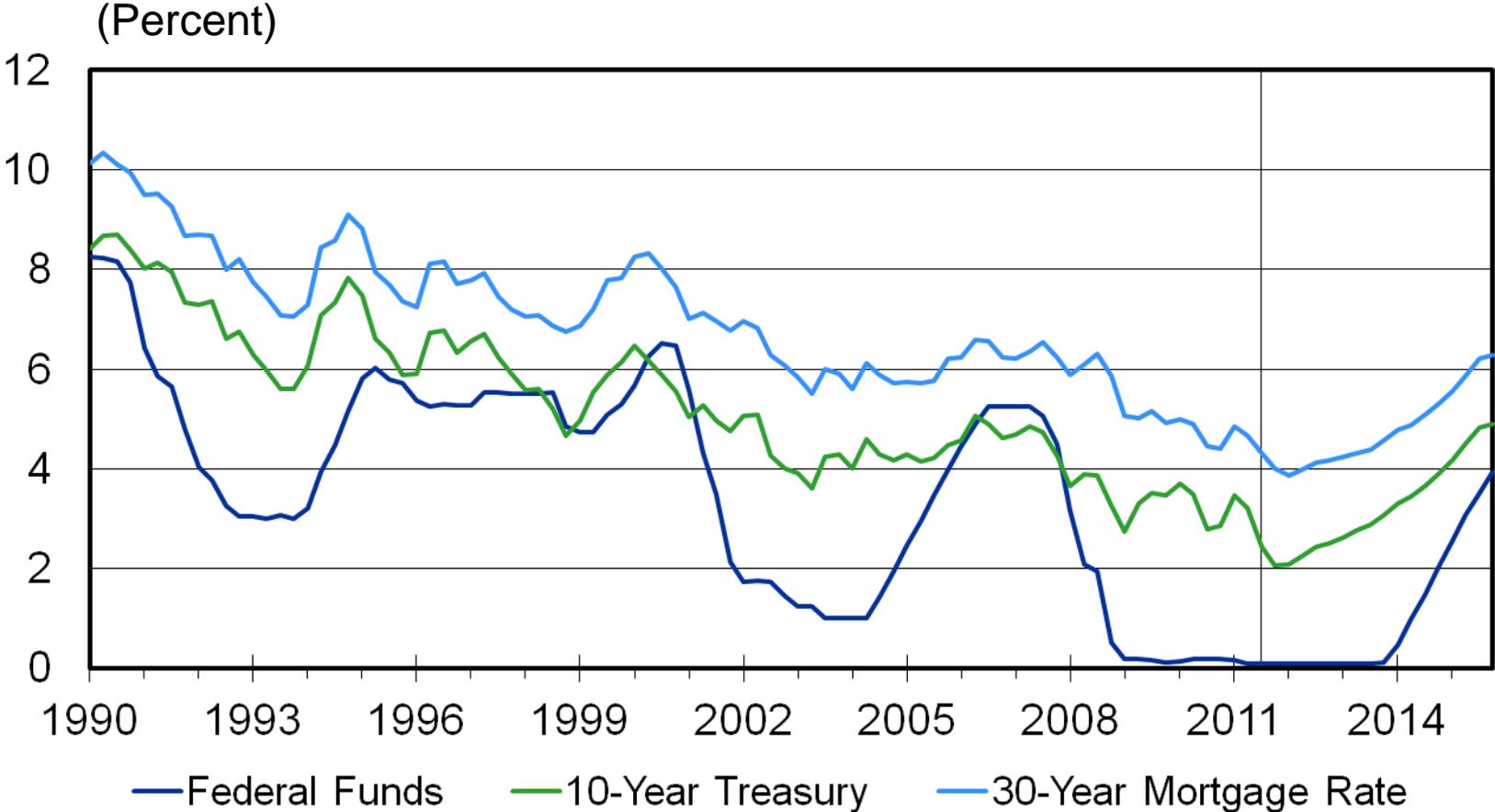
	2010	2011	2012	2013
Real GDP	3.0	1.7	1.8	2.4
Consumption	2.0	2.3	2.2	1.9
Residential Investment	-4.3	-1.9	4.2	18.2
Business Fixed Investment	4.4	8.7	5.1	5.3
Federal Government	4.5	-1.8	-2.8	-3.6
State & Local Government	-1.8	-2.2	-2.5	-0.9
Exports	11.3	6.7	3.5	7.6
Imports	12.5	4.7	2.5	3.5

# Other Key US Indicators

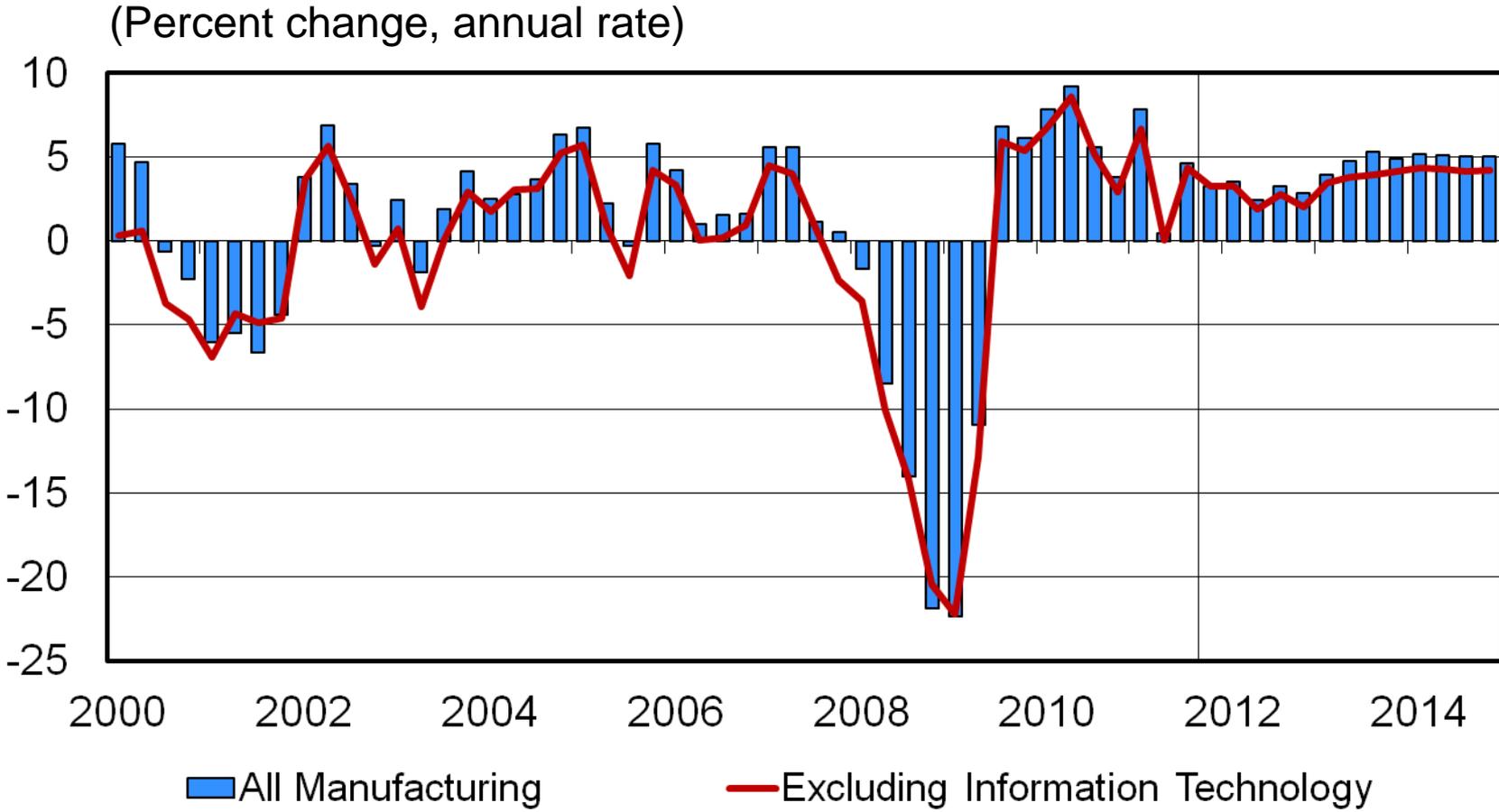
(Percent change unless noted)

	2010	2011	2012	2013
Industrial Production	5.3	3.9	2.6	3.2
Payroll Employment	-0.7	1.0	1.1	1.6
Light-Vehicle Sales (Millions)	11.6	12.7	13.3	14.7
Housing Starts (Millions)	0.58	0.60	0.68	0.96
Consumer Price Index	1.6	3.1	1.5	1.7
Core CPI	1.0	1.6	1.6	1.7
Refiners' Acquisition Oil Price (\$/barrel)	77	100	97	101
Federal Funds Rate (%)	0.2	0.1	0.1	0.1
10-Year Treasury Yield (%)	3.2	2.8	2.3	2.8

# Interest Rates Will Stay Low for Several Years



# Manufacturing Production Growth Is Hitting a Soft Patch



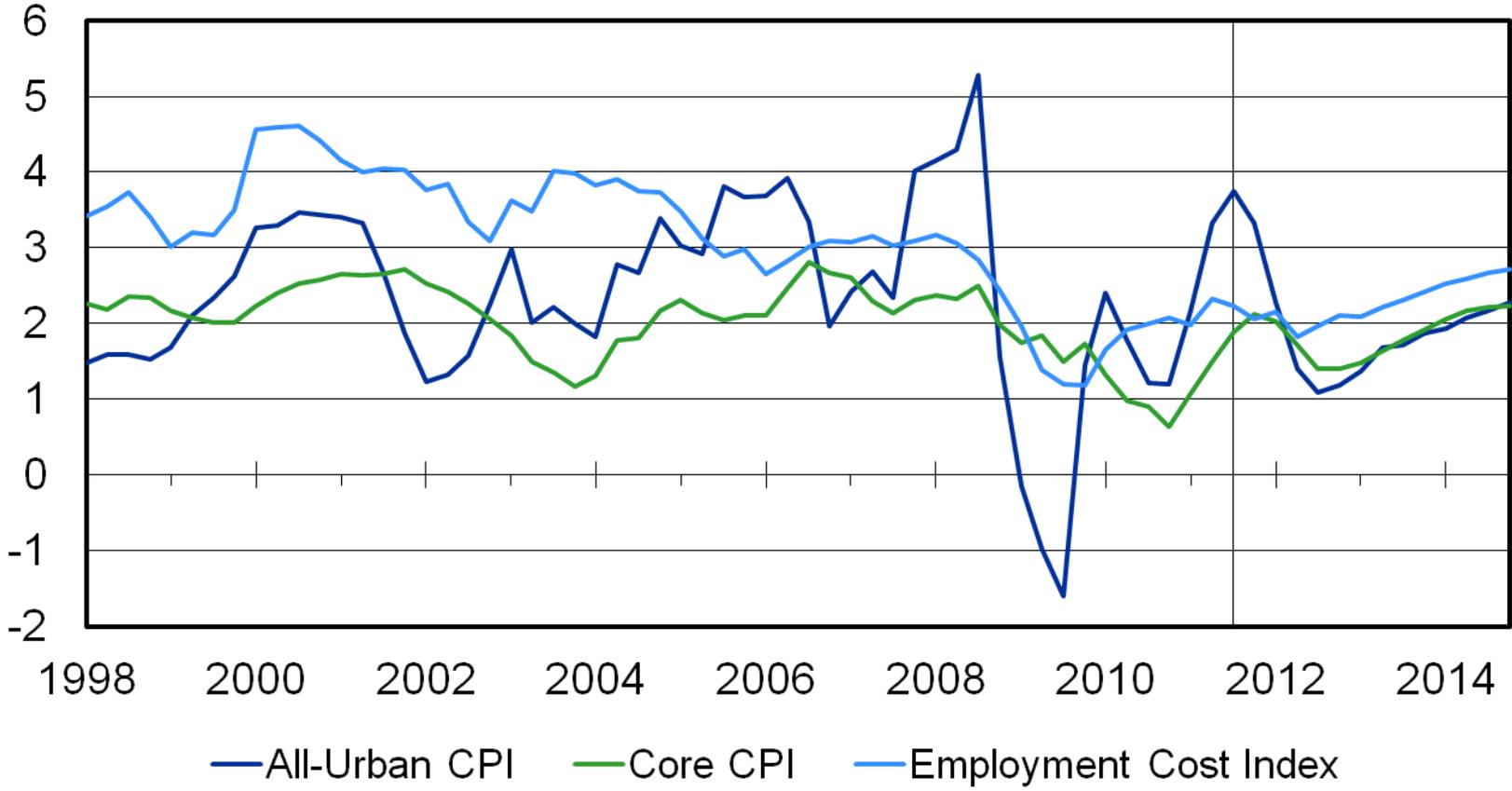
# US Industrial Production Growth

(Percent change)

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
All Manufacturing	5.8	4.8	3.1	4.0
Motor Vehicles & Parts	27.9	8.0	9.7	9.0
Computers & Electronics	10.8	7.8	5.0	9.6
Elec. Equip. & Appliances	3.1	1.2	1.1	4.0
Textiles	2.1	-3.1	-3.4	0.3
Apparel	-3.4	0.2	-4.3	-4.7
Furniture	-0.8	5.4	0.0	3.9
Chemicals	3.6	1.7	1.2	1.7

# Consumer Price Inflation Will Subside in 2012

(Year-over-year percent change)



# Market Fundamentals Will Support Crude Oil Prices

- Sustained growth in emerging markets will support demand and prices.
- Concerns over Iran's nuclear program and unrest in Egypt, Syria, and Yemen are refocusing attention on the risks of supply disruptions.
- Growth in non-OPEC supplies will be limited in 2012 and 2013.
- Spare capacity will remain relatively tight.
- Recovering Libyan output will be offset by reductions from Gulf Arab producers.
- Increased production from US tight oil fields and Canadian oil sands will have a moderating influence on prices in 2015-20.
- Natural gas prices diverged (lower) beginning in 2009 with new production.

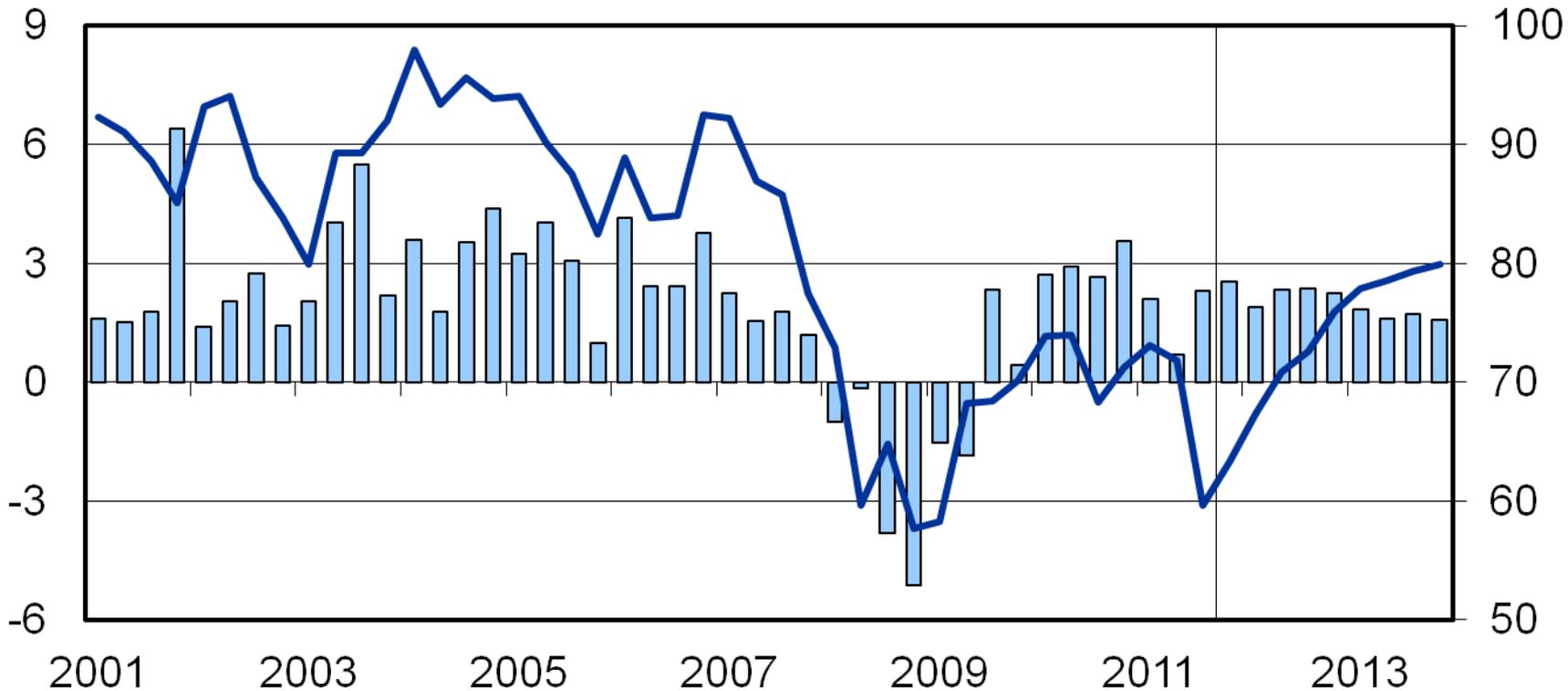
# The Consumer Markets Environment

(Percent change unless noted)

	2010	2011	2012	2013
Real Consumption	2.0	2.3	2.2	1.9
Real Disposable Income	1.8	1.0	1.6	1.2
Real Household Net Worth	5.4	0.8	0.1	3.8
Payroll Employment	-0.7	1.0	1.1	1.6
Real Wage Rate	-0.2	-0.8	0.5	0.5
Consumption Price Deflator	1.8	2.4	1.3	1.5
Light-Vehicle Sales (Millions)	11.6	12.7	13.3	14.7
Home Sales* (Millions)	4.63	4.67	4.84	5.35

\* Single-family new and existing homes

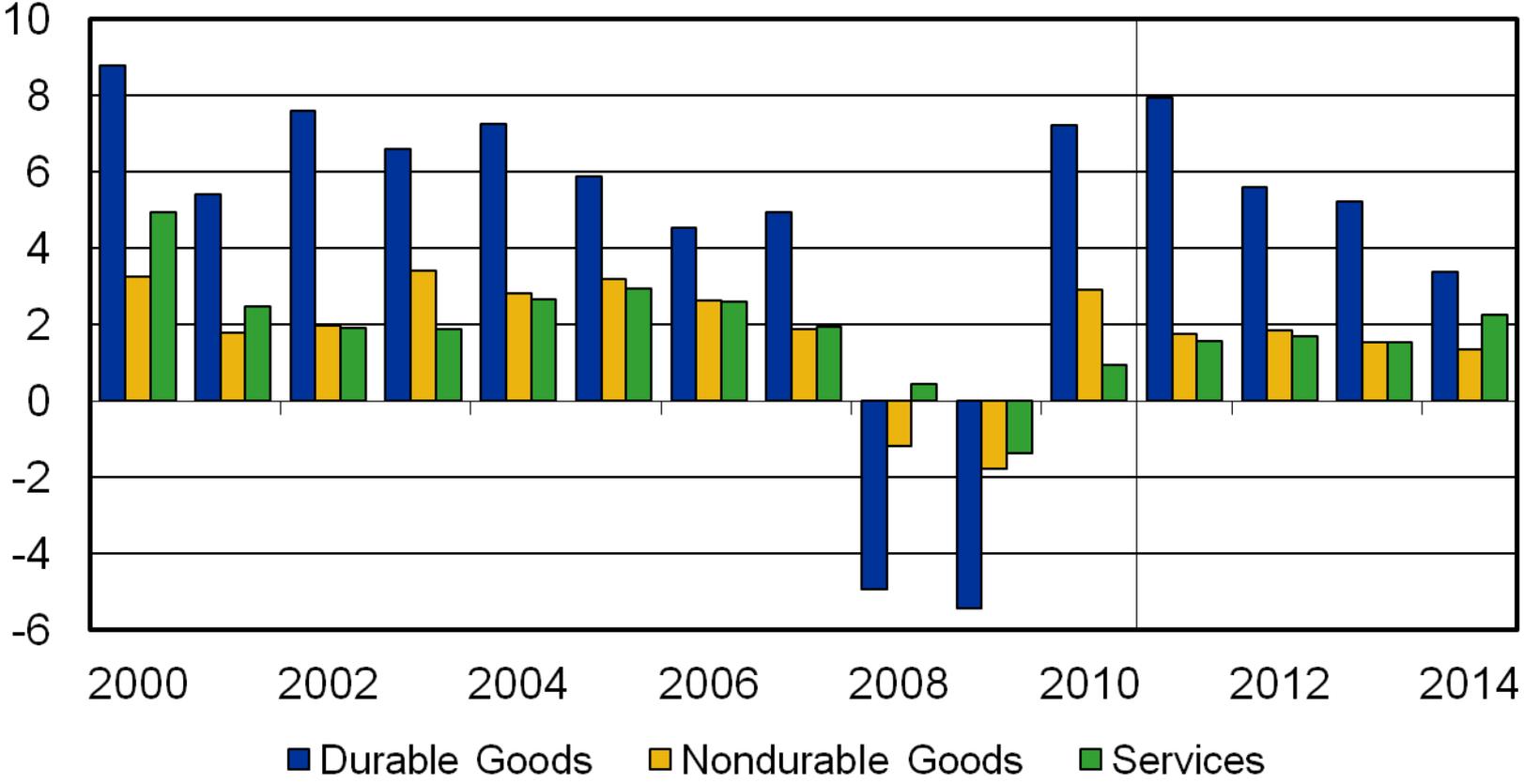
# Consumers Are Cautious: Real Spending Growth



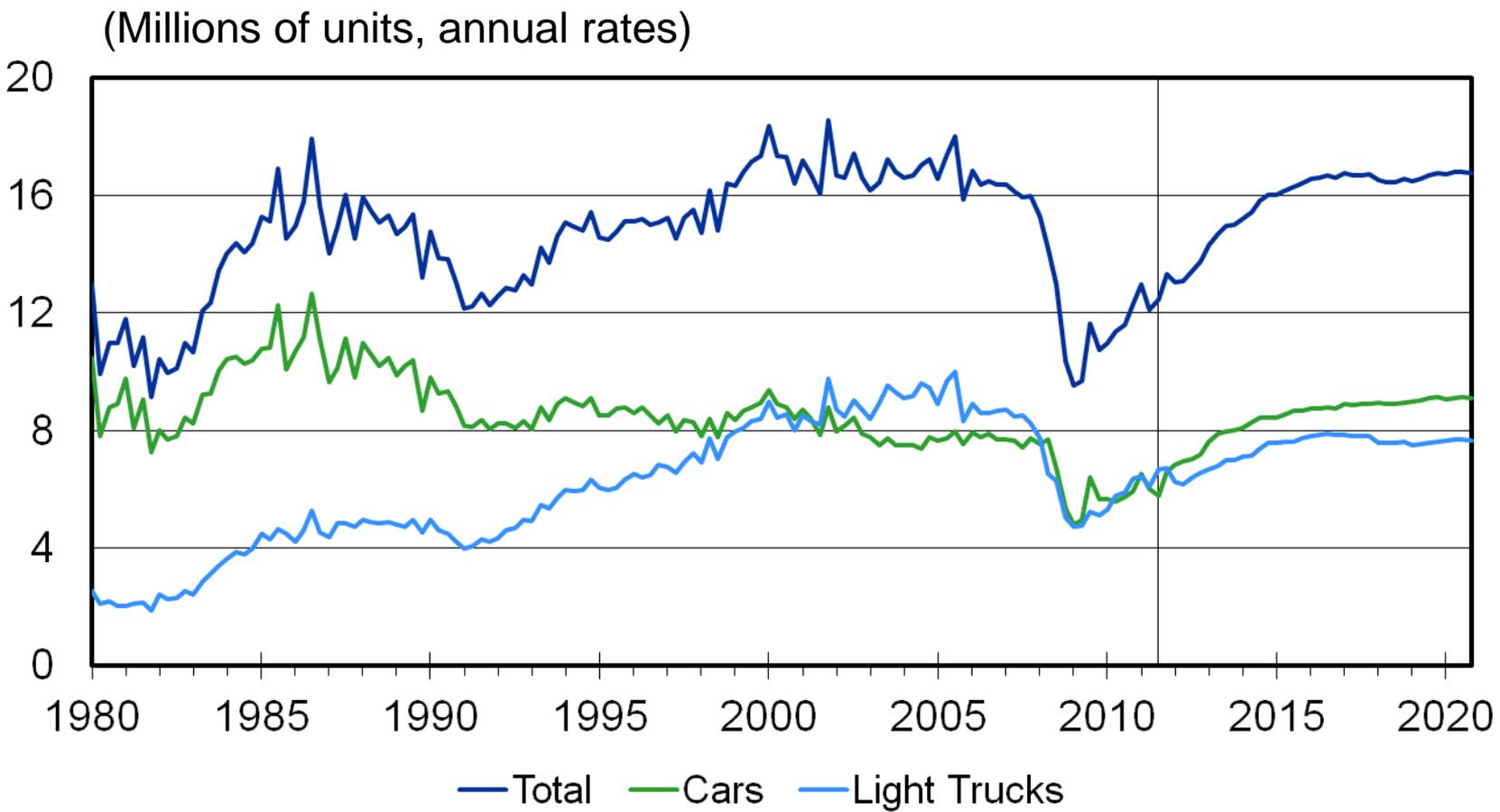
■ Real Consumption Growth (Left scale, annual percent change)  
— Consumer Sentiment (Right scale, Reuters/Michigan Index, 1966=100)

# Pent-up Demand for Durable Goods Drives Growth in Consumer Spending

(Percent change, chained 2005 dollars)



# US Light-Vehicle Sales Are Gradually Recovering



# A Much-Delayed Recovery in Housing Markets

- The recession led to a drop-off in household formation.
- Sustained job growth is needed for revival.
- Record home affordability should boost demand.
- Credit conditions remain tight across regions.
- Mortgage foreclosures are adding to excess supply, depressing prices, and holding back new construction.
- Multifamily home construction will lead the recovery, reflecting a shift from owner-occupied to rental housing.

# Bottom Line

- Consumers and businesses are cautiously increasing their spending.
- The Federal Reserve is likely to introduce another round of quantitative easing, but its powers to support growth are limited.
- Fiscal tightening is coming, but the big issues (entitlements and taxes) will not be settled until after the 2012 elections.
- Pent-up demand for housing will eventually lead to stronger economic growth.
- The major risk is financial contagion from the Eurozone sovereign debt crisis, which could pull the US economy into recession.

# Regional Outlook

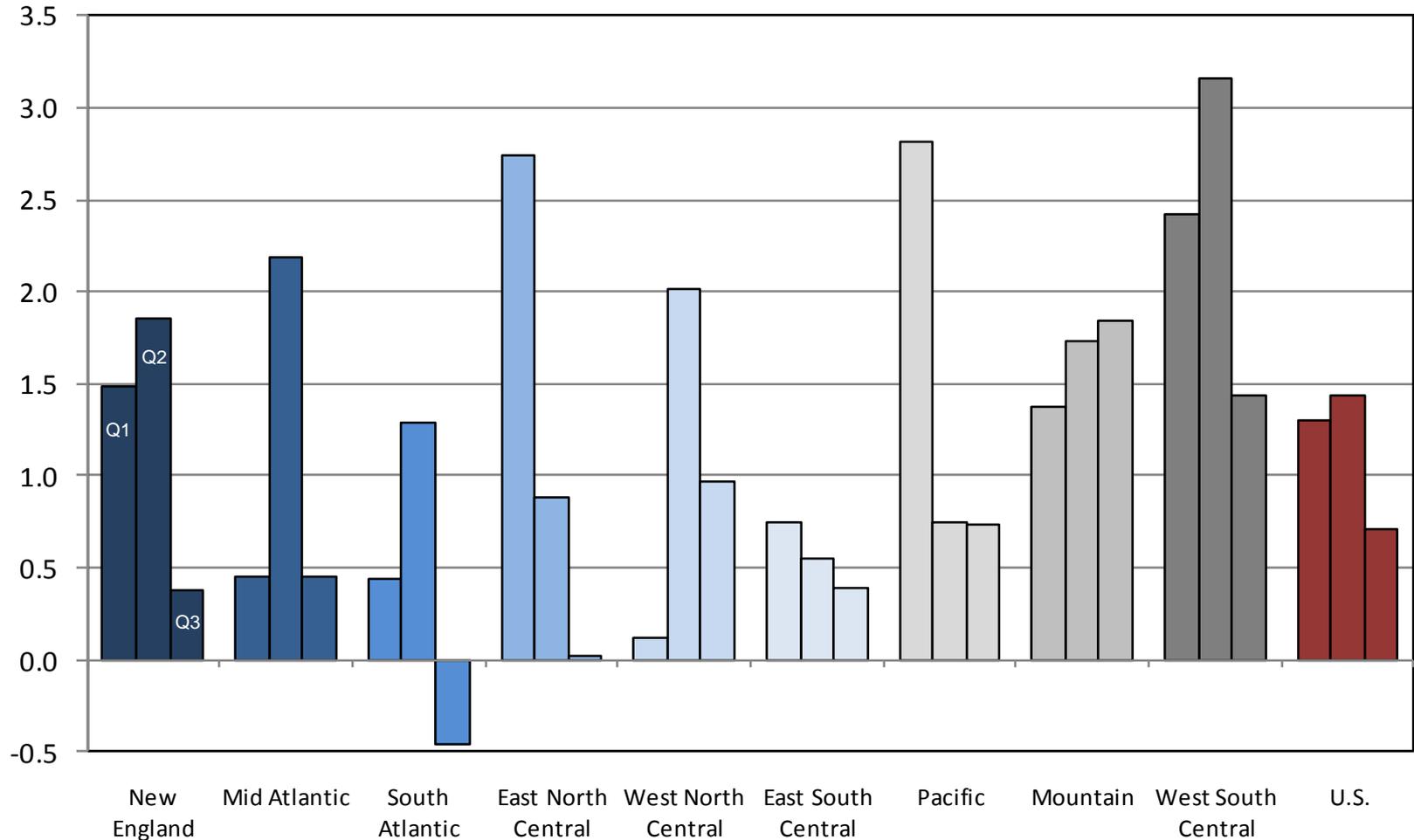


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# Widespread regional deceleration

## Employment Growth by Region: 2011 Q1, Q2, Q3

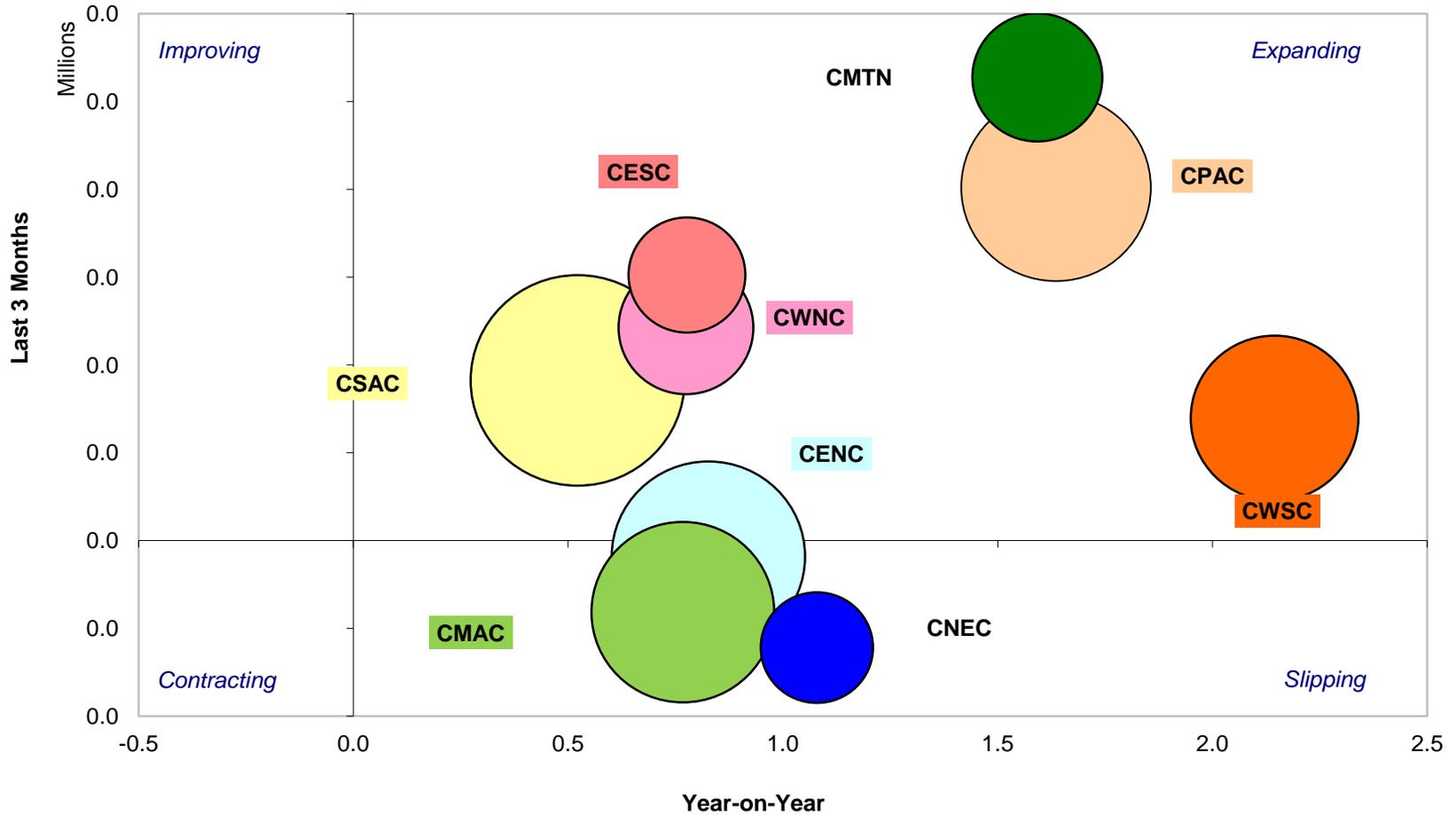
Quarter-on-quarter % Change, Annual Rate



# But Momentum Turning Around

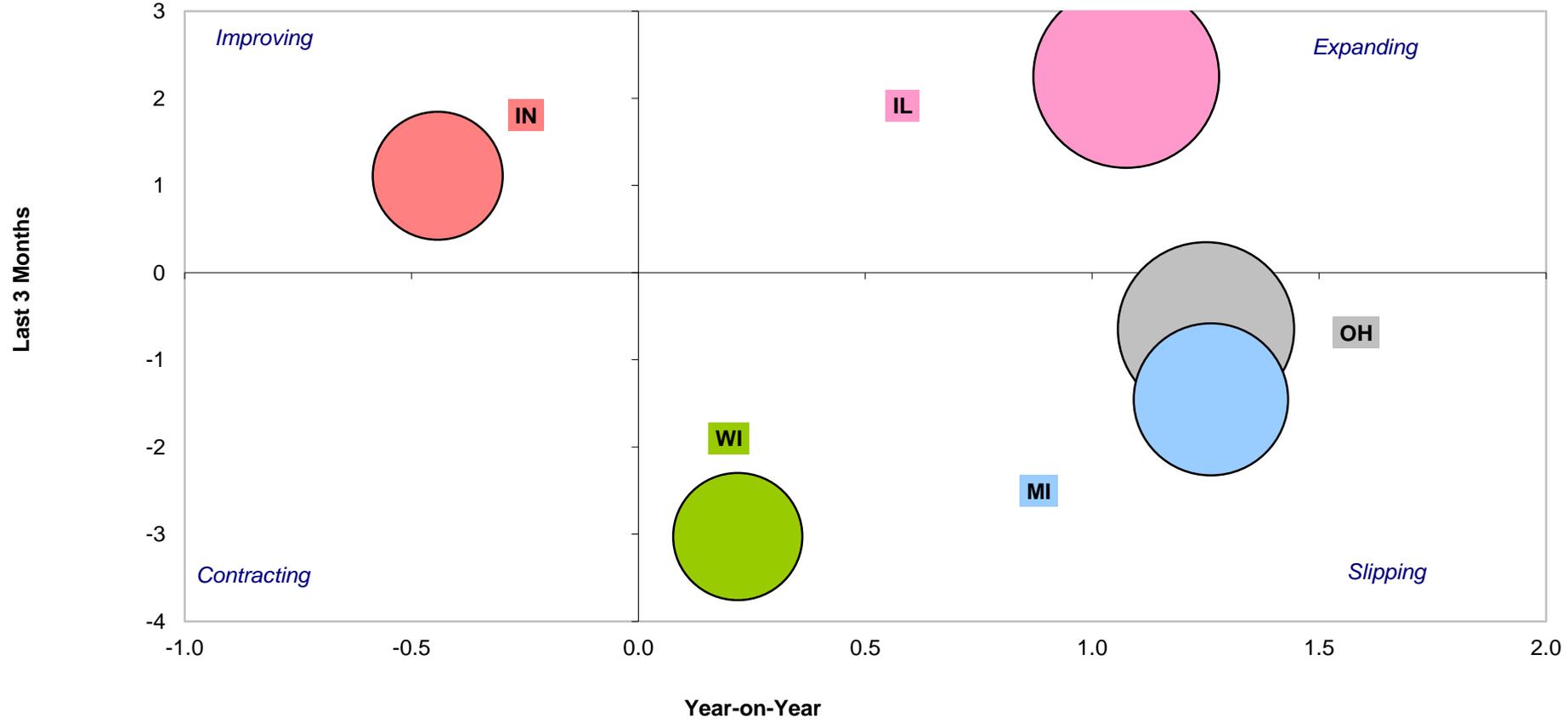
## Employment Momentum in Oct

(Percent change, annual rate)



# Employment Momentum in Oct

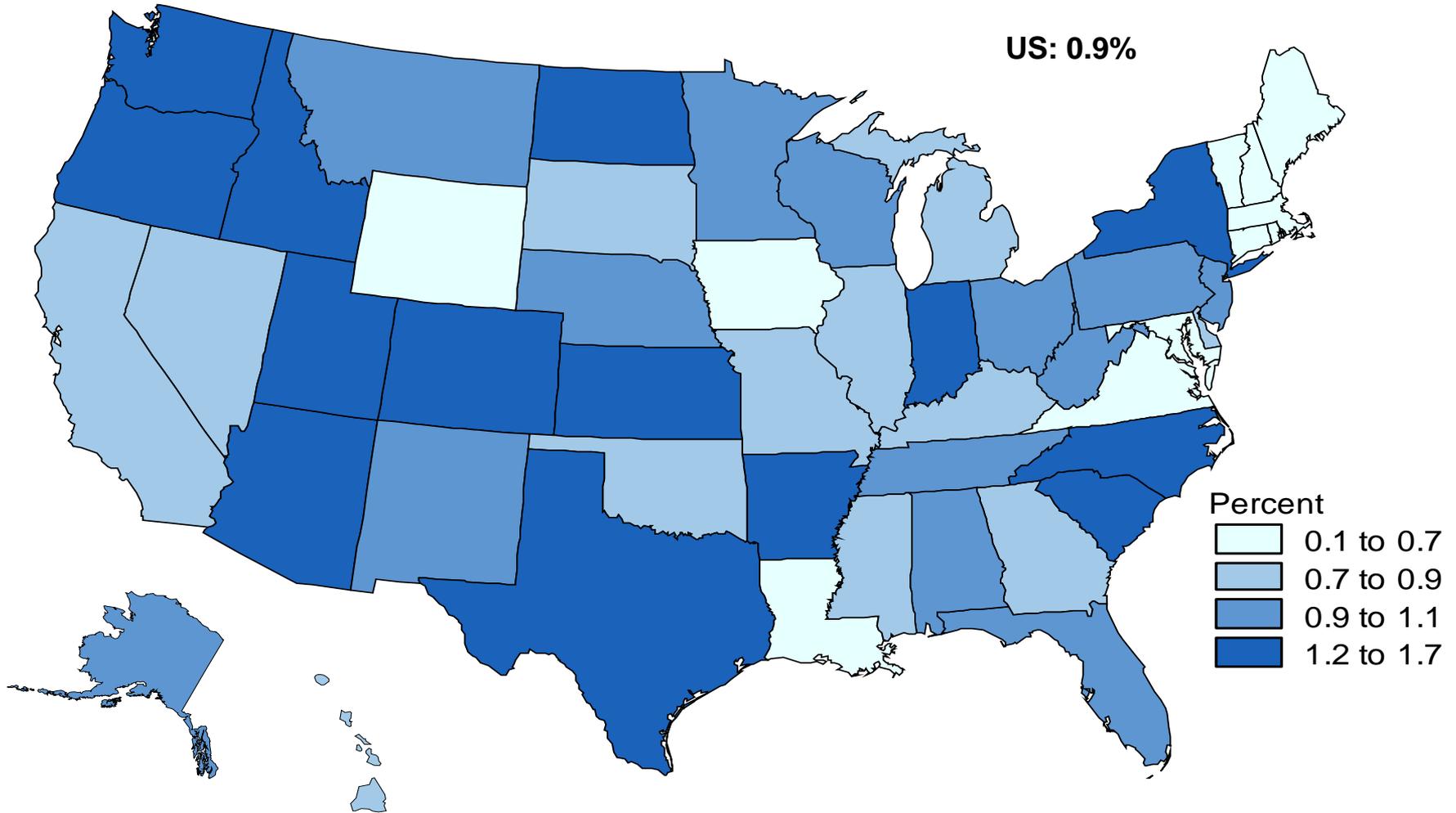
(Percent change, annual rate)



# Slow Recovery Continues in 2012 (Indiana 1.6)

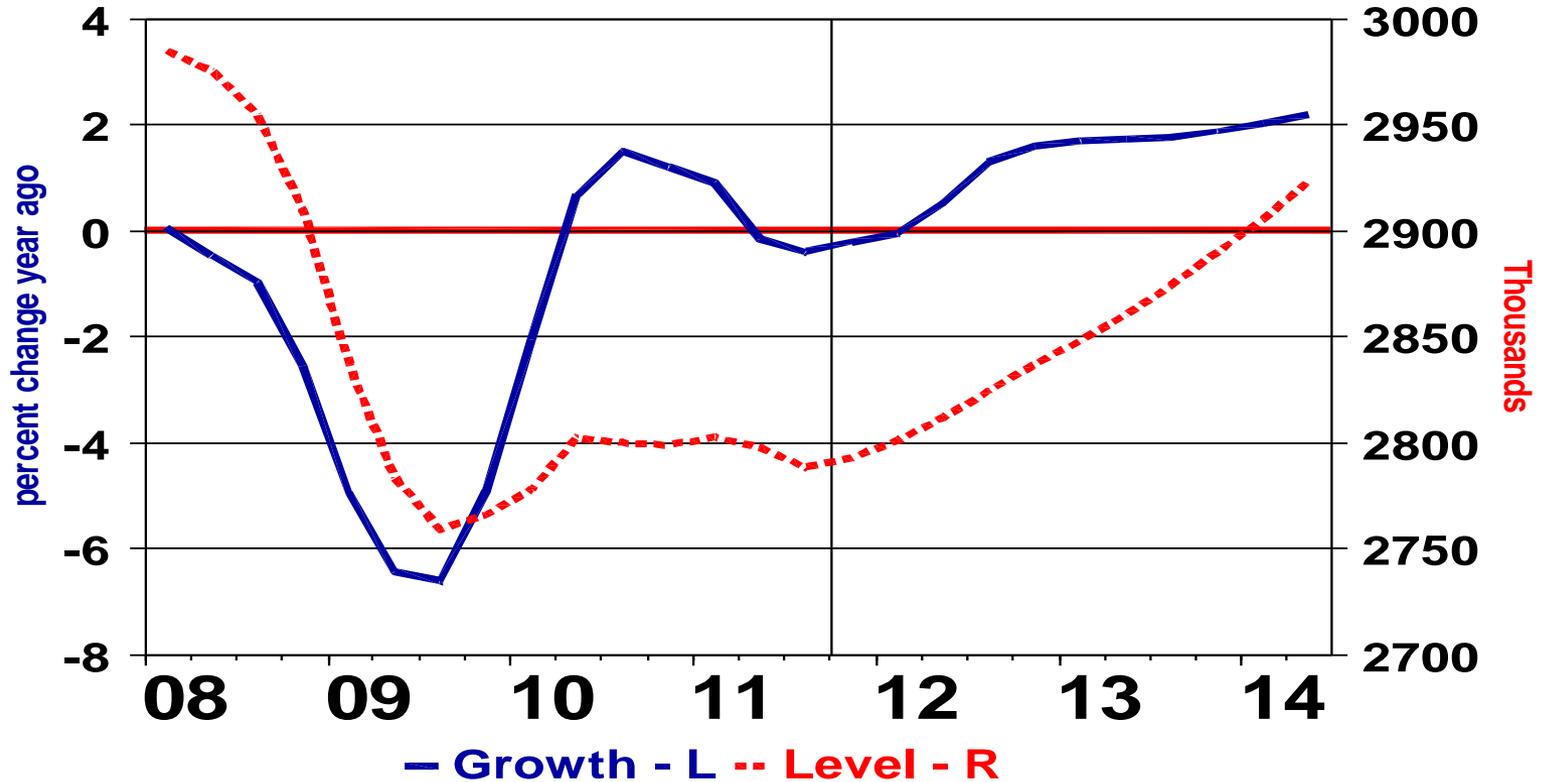
Employment Growth 2012Q4, year-over-year %

US: 0.9%



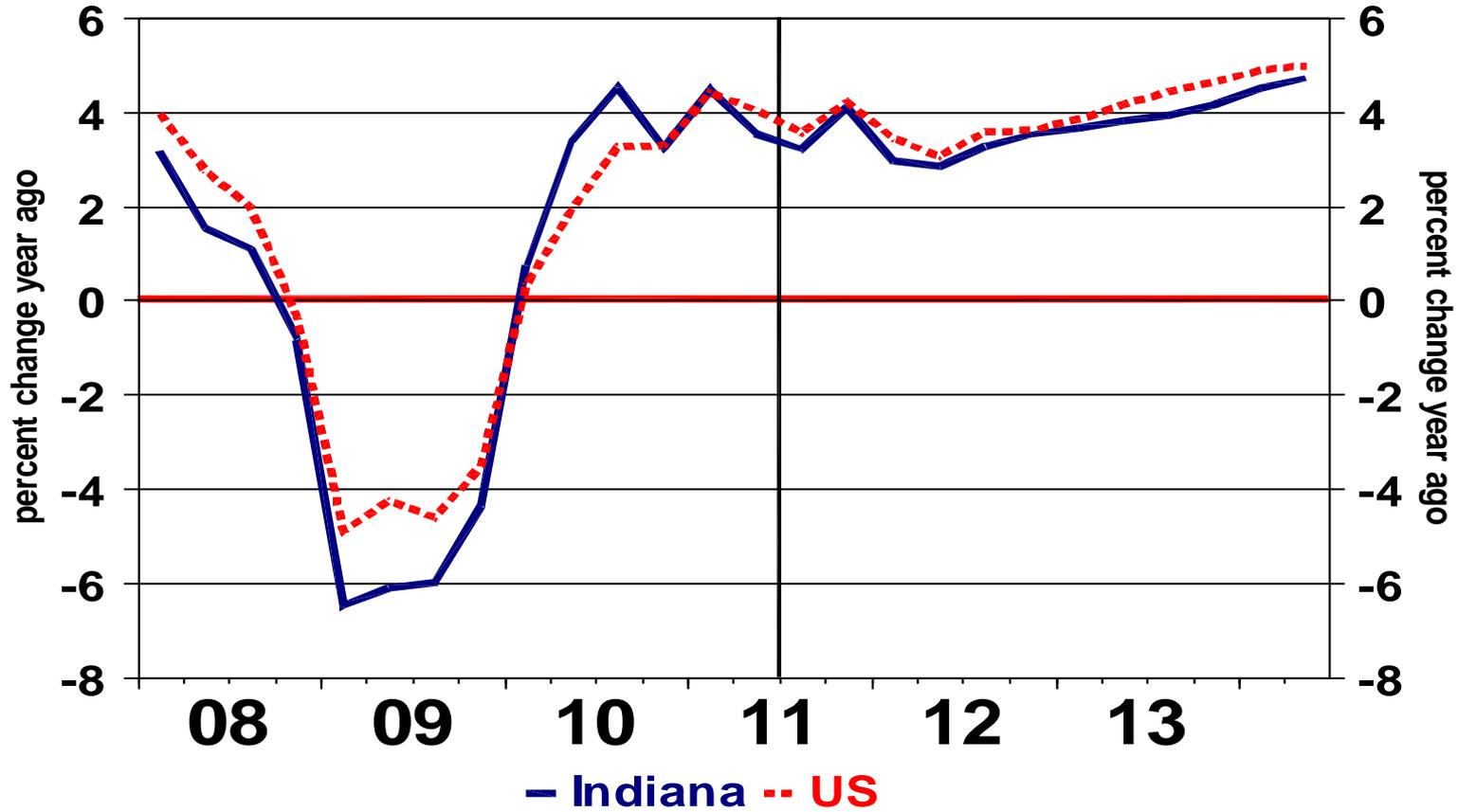


# Indiana Employment Forecast

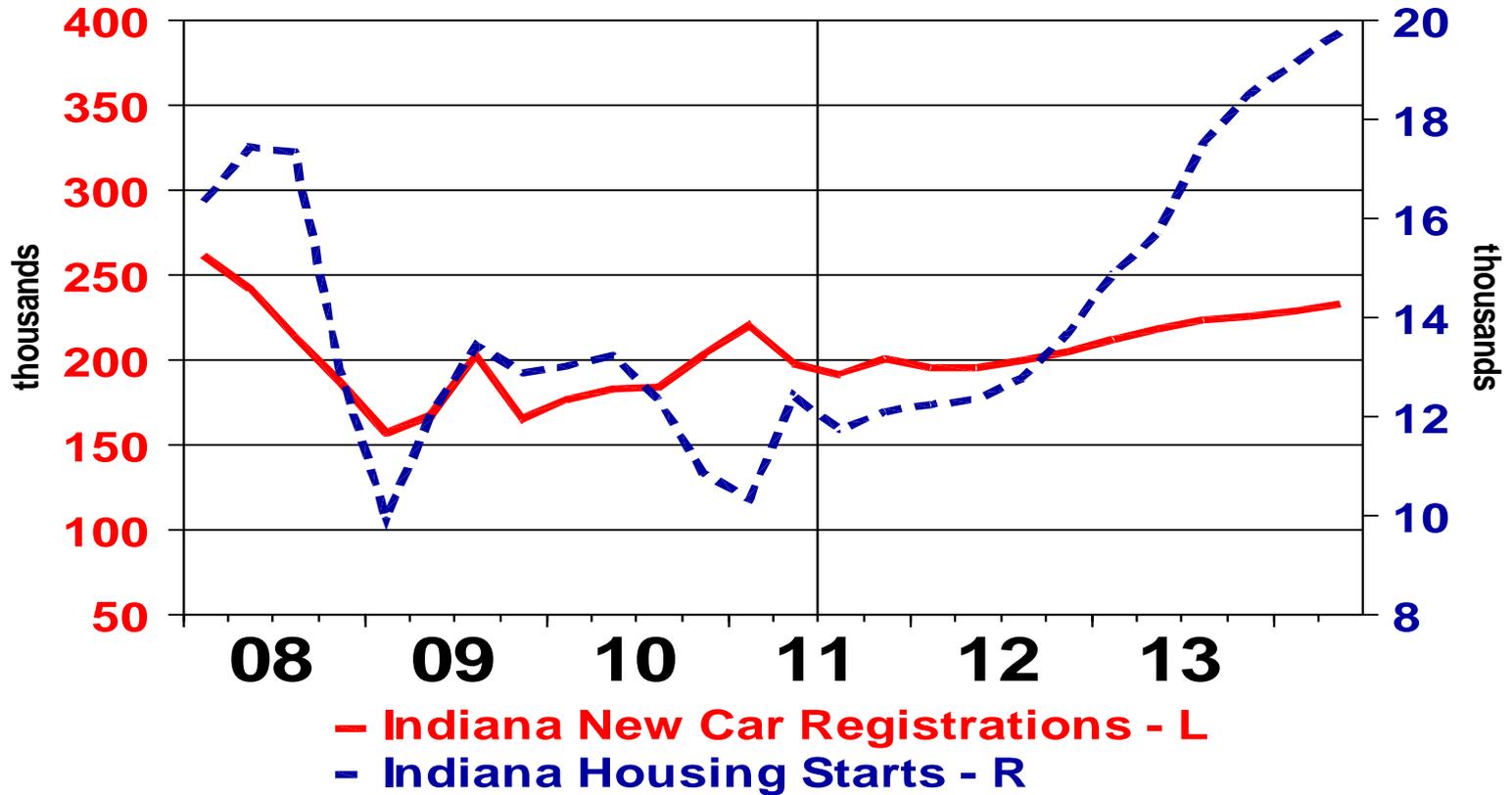


# Wage Gains

(nominal total wages and salaries)



# Cars and Houses



# Indiana Forecast Summary

(Percent unless otherwise noted)

	2010	2011	2012	2013
<b>Employment</b>	0.3	0.0	0.8	1.8
<b>Unemployment Rate</b>	10.2	8.6	8.6	8.4
<b>Personal Income</b>	2.5	4.8	2.9	3.4
<b>Housing Starts (000)</b>	12.4	11.6	12.7	16.6
<b>Retail Sales</b>	5.1	7.7	4.1	4.1
<b>Real Gross State Product</b>	4.5	1.5	1.4	2.5

# Thank you!

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